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Allowances

The President's budget and the Congressional budget resolution sometimes include amounts in function 920 to reflect proposals that are not clearly specified or that would affect multiple budget functions. Since the Congress actually appropriates money for specific purposes, there are never any budget authority or outlay totals for function 920 in historical data or in CBO's baseline projections. In this volume, function 920 includes options that cut across programs and agencies and would affect multiple functions.

920-01 ELIMINATE REQUIREMENTS THAT AGENCIES PURCHASE ALTERNATIVE-FUEL VEHICLES

| | Savings (Millions of dollars) | |
|---------------------------|----------------------------------|---------|
| | Budget Authority | Outlays |
| Annual | | |
| 2000 | 10 | 7 |
| 2001 | 11 | 11 |
| 2002 | 12 | 12 |
| 2003 | 13 | 13 |
| 2004 | 14 | 14 |
| 2005 | 15 | 15 |
| 2006 | 16 | 16 |
| 2007 | 17 | 17 |
| 2008 | 18 | 18 |
| 2009 | 19 | 19 |
| Cumulative | | |
| 2000-2004 | 60 | 57 |
| 2000-2009 | 145 | 142 |
| SPENDING CATEGORY: | | |
| Discretionary | | |
| RELATED OPTION: | | |
| 920-03 | | |

As part of the federal government's efforts on behalf of cleaner air, the Energy Policy Act (EPACT) requires federal agencies to acquire light-duty cars and trucks that can operate using an alternative fuel, such as compressed natural gas, denatured ethanol, or electricity. Beginning in 1999, with certain exceptions, 75 percent of light-duty vehicles acquired for federal fleets in high-density areas must be manufactured or converted to operate as a bi-fuel (gasoline or alternative fuel), flexible-fuel (mixture), or dedicated-fuel (alternative fuel only) vehicle. EPACT annually applies to more than 20,000, or just under half, of new vehicles.

Although agencies have yet to meet any of EPACT's annual targets for acquiring alternative-fuel vehicles (AFVs), they increasingly add AFVs to their fleets. To date, the government has acquired or converted close to 35,000 AFVs, which are often considerably more expensive to buy and operate than conventional vehicles. For example, the government spends about \$4,000 more for a vehicle equipped to operate using compressed natural gas. Eliminating the EPACT requirement would save \$142 million in federal transportation costs through 2009.

The estimate of annual savings assumes that agencies will continue under current law to fall short of the 75 percent requirement. If agencies were to meet current-law targets, increasing their use of AFVs, savings would be greater. The estimated budgetary effect of eliminating the EPACT requirement excludes annual savings to the Postal Service, which is classified as off-budget.

An obvious advantage of eliminating the requirement is that it would reduce transportation costs to the federal government and the taxpayers. In addition, given the annual limits set in law for total discretionary spending, and falling fuel prices, it may no longer be desirable to require agencies to purchase the more expensive AFVs.

A disadvantage of eliminating the requirement is that the federal government would no longer be leading the conversion to AFVs. Such a policy change could discourage similar efforts at the state and local levels. In addition, the development of the AFV market and of less expensive vehicles of that type could slow. Such a result could hurt clean air efforts. However, according to information from the General Services Administration and the Department of Energy, many agencies are buying bi-fuel vehicles that comply with EPACT but that do not require the use of alternative fuels.

920-02 **REDUCE THE NUMBER OF POLITICAL APPOINTEES**

| | Savings (Millions of dollars) | |
|--|----------------------------------|---------|
| | Budget Authority | Outlays |
| Annual | | |
| 2000 | 48 | 46 |
| 2001 | 71 | 71 |
| 2002 | 76 | 76 |
| 2003 | 121 | 119 |
| 2004 | 108 | 109 |
| 2005 | 82 | 84 |
| 2006 | 87 | 87 |
| 2007 | 139 | 137 |
| 2008 | 123 | 124 |
| 2009 | 94 | 96 |
| Cumulative | | |
| 2000-2004 | 425 | 421 |
| 2000-2009 | 951 | 947 |
| <p>NOTE: Savings measured from the 1999 funding level adjusted for pay raises and changes in employment.</p> | | |
| <u>SPENDING CATEGORY:</u> | | |
| Discretionary | | |

The term "political appointee" generally refers to employees of the federal government who are appointed by the President, some with and some without Senate confirmation, and to certain policy advisers hired at lower levels. For this discussion, the term "political appointee" refers to cabinet secretaries, agency heads, and other executive-schedule employees at the very top ranks of government; top managers and supervisors who are noncareer members of the Senior Executive Service; and confidential aides and policy advisers referred to as Schedule C employees. The total number of employees in such positions, according to Congressional Budget Office projections, will average about 2,800 over the next 10 years. If the government instead capped the number of political appointees at 2,000, savings over 10 years would total \$947 million. The current average salary for political appointees, in CBO's calculations, is estimated to be \$87,000.

Reports from several groups, including the National Commission on the Public Service and the Twentieth Century Fund, have called for cuts in the number of political appointees. The National Commission on the Public Service, also known as the Volcker Commission, called for setting a limit similar to the one described here. In addition to the problem of excessive organizational layering, the Volcker Commission described concerns about many appointees' lack of expertise in government operations and programs. In political appointments, the commission noted, political loyalties generally count more than knowledge of government. Moreover, few appointees are in office long enough to acquire the necessary skills and experience to master their job. That lack of experience, according to the commission, means that political appointees in many instances are not effective in carrying out the policies of the President they serve and can disrupt an agency's daily operations. As a result, career managers become frustrated and demoralized, making recruitment and retention difficult in the top ranks of the career civil service.

Critics of reducing the number of political appointees cite the importance of a President's establishing control over the vast bureaucracy by having like-minded individuals and allies strategically situated. Those appointees, critics note, form an important link to the electorate because they help to ensure governmentwide leadership that is consistent with the philosophy of each elected President. Such appointees, moreover, can offer fresh perspectives and innovation. The high rate of turnover among appointees, critics argue, means that those officials make way for someone new before they reach the point of burnout.

920-03 CHARGE FEDERAL EMPLOYEES COMMERCIAL RATES FOR PARKING

| | Added Receipts (Millions of dollars) |
|----------------------------|---|
| Annual | |
| 2000 | 110 |
| 2001 | 110 |
| 2002 | 110 |
| 2003 | 110 |
| 2004 | 110 |
| 2005 | 110 |
| 2006 | 110 |
| 2007 | 110 |
| 2008 | 110 |
| 2009 | 110 |
| Cumulative | |
| 2000-2004 | 550 |
| 2000-2009 | 1,100 |
| <hr/> | |
| <u>SPENDING CATEGORY:</u> | |
| Mandatory | |
| <u>RELATED OPTION:</u> | |
| 920-01 | |

The federal government leases and owns more than 200,000 parking spaces, which it allocates to its employees—in most cases without charge. Requiring federal government employees to pay commercial rates for their parking could yield receipts of \$110 million in 2000, \$550 million over five years, and \$1.1 billion over 10 years.

Federal workers in the largest metropolitan areas would bear the brunt of the new charges. Those in the Washington, D.C., metropolitan area would be affected the most, paying about 75 percent of the total charge. (Federal employees in less commercially developed areas, where charging for parking is uncommon, would not face new parking charges.) Employees who continued to use federally owned or managed parking would, on average, pay about \$120 per month; employees who currently use free or heavily subsidized parking could choose alternative means of transportation, such as public transportation or carpooling, to avoid the charge.

Supporters of this option favor charging commercial rates for parking because it would encourage federal employees to use public transportation or carpool. That would reduce the flow of cars into urban areas, cutting down on energy consumption, air pollution, and congestion. By acting as a model employer in this regard, the federal government could more effectively call on others to reduce pollution and energy consumption. In addition, commercial pricing would indicate the demand for parking by federal workers more accurately, enabling the government to allocate spaces to those who valued them the most. Moreover, if commercial rates reduced demand for spaces sufficiently, the government might be able to put the unused spaces to new, higher-valued uses. Finally, some observers argue that the federal government should not provide a valuable commodity, such as parking, free to workers who can afford to pay for it.

Critics of this option argue that by charging for parking, the government would unfairly penalize workers in urban areas who have difficulty obtaining access to alternative transportation or who drive to work for valid personal reasons. Charging for parking would also reduce federal employees' total compensation. In addition, critics note that many private-sector employers provide free parking. Some people also have argued that charging commercial rates would merely re-ration the existing spaces without reducing the number of people who drive to work. According to that view, the spaces would simply be allocated by willingness to pay rather than by rank, seniority, or other factors.

920-04 IMPOSE A FEE ON GSE INVESTMENT PORTFOLIOS

| | Savings (Millions of dollars) | |
|--|----------------------------------|---------|
| | Budget | Outlays |
| | Authority | |
| | Annual | |
| 2000 | 550 | 550 |
| 2001 | 550 | 550 |
| 2002 | 550 | 550 |
| 2003 | 550 | 550 |
| 2004 | 550 | 550 |
| 2005 | 550 | 550 |
| 2006 | 550 | 550 |
| 2007 | 550 | 550 |
| 2008 | 550 | 550 |
| 2009 | 550 | 550 |
| | Cumulative | |
| 2000-2004 | 2,750 | 2,750 |
| 2000-2009 | 5,500 | 5,500 |
| <hr/> | | |
| SPENDING CATEGORY: | | |
| Mandatory | | |
| <hr/> | | |
| RELATED OPTION: | | |
| 370-10 | | |
| <hr/> | | |
| RELATED CBO PUBLICATIONS: | | |
| <i>Assessing the Public Costs and Benefits of Fannie Mae and Freddie Mac</i> (Report), May 1996. | | |
| <i>Controlling the Risks of Government-Sponsored Enterprises</i> (Report), April 1991. | | |

Government-sponsored enterprises (GSEs) are private financial institutions chartered by the federal government to support the flow of funds to agriculture, housing, and higher education. GSEs achieve their public purposes by borrowing on the strength of an implicit federal guarantee of their debt obligations. Investors infer the guarantee from the exemption of GSE securities from the normal protection afforded to investors, Congressional support for the enterprises' public purposes, their exemption from state and local taxes, and the huge volume of their outstanding obligations. The implicit guarantee lowers GSEs' cost of borrowing, thus conveying subsidies that give them a competitive advantage in financial markets.

Before the 1990s, GSEs generally used the money they borrowed to make loans or buy loans made by other lenders. More recently, the three largest GSEs—Fannie Mae, Freddie Mac, and the Federal Home Loan Bank System—have used borrowed funds to acquire enormous portfolios of debt securities. The investments consist mainly of mortgage-backed securities (MBSs) but also include corporate bonds and asset-backed securities. At the end of 1998, the investment portfolios of those three enterprises totaled \$586 billion, or 52 percent of their combined assets. A fourth GSE, Farmer Mac, has acquired a smaller investment portfolio. The four enterprises conduct an arbitrage between the market for GSE debt and that for private debt, profiting from the difference between the yields on their investments and their own subsidized cost of funds.

Imposing an annual fee on the four GSEs that earn arbitrage profits that would equal 10 cents for every \$100 (10 basis points) of each GSE's holdings of debt securities that the enterprise finances with debt would save \$550 million in 2000, \$2.8 billion over five years, and \$5.5 billion by 2009. The fee would reduce the competitive advantage that GSEs have in holding debt securities and, at least initially, would reduce the net income of the four that do so; their net income exceeded \$6.5 billion (after taxes) in calendar year 1998. The enterprises could avoid the fee by reducing their investment portfolios but would probably not do so because their cost advantage in issuing debt exceeds the fee. The GSEs could also try to recoup lost arbitrage profits by increasing their risk or the prices they charge.

Proponents of imposing the fee argue that no public policy objectives are served by allowing GSEs to seek high yields in investments unrelated to their missions. The profits of each enterprise subject to the fee, except Farmer Mac, would remain above competitive levels. Even if the three housing GSEs reduced their MBS holdings, it would not adversely affect the markets for those securities, which are deep, liquid, and extremely efficient. Critics counter that greater risk taking by the four enterprises could increase the government's risk exposure. Federal risk-based capital requirements and regulatory examinations, if effective, would limit the amount of any increase in the GSEs' risk borne by the government. Fannie Mae and Freddie Mac could possibly raise the interest rates on new mortgages they bought, but competition from wholly private firms and between those two GSEs would limit their ability to do so.

920-05 REPEAL THE SERVICE CONTRACT ACT

| | Savings (Millions of dollars) | |
|---------------------------|----------------------------------|---------|
| | Budget Authority | Outlays |
| Annual | | |
| 2000 | 610 | 580 |
| 2001 | 610 | 610 |
| 2002 | 610 | 610 |
| 2003 | 610 | 610 |
| 2004 | 610 | 610 |
| 2005 | 610 | 610 |
| 2006 | 610 | 610 |
| 2007 | 610 | 610 |
| 2008 | 610 | 610 |
| 2009 | 610 | 610 |
| Cumulative | | |
| 2000-2004 | 3,050 | 3,020 |
| 2000-2009 | 6,100 | 6,070 |
| SPENDING CATEGORY: | | |
| Discretionary | | |

The McNamara-O'Hara Service Contract Act of 1965 (SCA) sets basic labor standards for employees working on government contracts whose main purpose is to furnish labor, such as laundry, custodial, and guard services. Contractors covered by the act generally must provide those employees with wages and fringe benefits that at least equal those prevailing in the contractors' locality or those specified by a collective bargaining agreement of the previous contractor. The Department of Labor measures prevailing wages in an area according to the specific wages and benefits earned by at least 50 percent of workers in a particular type of job or by the average of the wages and benefits paid to workers in that type of job. The provision about collective bargaining agreements applies to successor contractors, regardless of whether their employees are covered by such an agreement.

In 1998, the SCA covered approximately 55,000 contracts valued at more than \$19 billion. The Department of Defense accounted for about 42 percent of that dollar value, the Army Corps of Engineers for 16 percent, and the National Aeronautics and Space Administration for 15 percent.

The cost of services procured by the federal government could be reduced by repealing the SCA. Repealing the act would reduce outlays by about \$600 million in 2000 and by about \$6.1 billion over the 2000-2009 period, provided federal agency appropriations were reduced to reflect the anticipated reduction in costs.

Federal procurement costs would fall because repealing the SCA would promote greater competition among bidders, although the precise magnitude of the savings is difficult to measure. Repealing the SCA would give contractors added flexibility that could allow them to reduce the costs of providing services. Opponents of this option are concerned, however, that it would allow bidders to undermine existing collective bargaining agreements. In addition, repealing the SCA would reduce the compensation of workers in some firms that provide services to the government, which opponents argue could reduce the quality of such services.

920-06-A REPEAL THE DAVIS-BACON ACT

| | Savings (Millions of dollars) | |
|---------------------------|----------------------------------|---------|
| | Budget Authority | Outlays |
| Annual | | |
| 2000 | 580 | 245 |
| 2001 | 580 | 660 |
| 2002 | 580 | 900 |
| 2003 | 580 | 1,020 |
| 2004 | 580 | 1,100 |
| 2005 | 580 | 1,130 |
| 2006 | 580 | 1,130 |
| 2007 | 580 | 1,130 |
| 2008 | 580 | 1,130 |
| 2009 | 580 | 1,130 |
| Cumulative | | |
| 2000-2004 | 2,900 | 3,925 |
| 2000-2009 | 5,800 | 9,575 |
| SPENDING CATEGORY: | | |
| Discretionary | | |
| RELATED OPTION: | | |
| 920-06-B | | |

Since 1935, the Davis-Bacon Act has required that "prevailing wages" be paid on all federally funded or federally assisted construction projects with contracts of \$2,000 or more. The Department of Labor measures prevailing wages in an area according to the specific wages and benefits earned by at least 50 percent of workers in a particular type of job or the average of the wages and benefits paid to workers in that type of job. Those procedures, as well as the classifications of workers who receive prevailing wages, favor union wage rates in some cases.

In 1999, approximately \$52 billion in federal discretionary funds was authorized for construction projects covered by the Davis-Bacon Act. Fifty-three percent of that amount went to transportation projects, 14 percent went to the Department of Housing and Urban Development and other community and regional development projects, and 13 percent went to the Department of Defense. (Most of the spending authority for transportation projects is controlled by limitations on obligations rather than by budgetary authority.)

The federal government could reduce outlays for construction by repealing the Davis-Bacon Act. Doing so would reduce discretionary outlays by about \$245 million in 2000 and by about \$9.6 billion over the 2000-2009 period, provided that federal agency appropriations were reduced to reflect the anticipated reduction in costs. Mandatory spending would fall by about \$10 million in 2000 and by about \$260 million over the 10-year period.

Repealing Davis-Bacon would allow the federal government to spend less on construction, although the precise effect of repealing the act on contractors' costs is difficult to measure. In addition, it would probably increase the opportunities for employment that federal projects would offer less skilled workers. However, such a change would lower the earnings of some construction workers. In addition, opponents of this option argue that eliminating Davis-Bacon requirements could jeopardize the quality of federally funded or federally assisted construction projects. They contend that by requiring firms to pay at least the locally prevailing wage, the people they hire are more likely to be able workers, resulting in fewer defects in the finished projects and more timely completion.

920-06-B RAISE THE THRESHOLD FOR COVERAGE UNDER THE DAVIS-BACON ACT

| | Savings (Millions of dollars) | |
|---------------------------|----------------------------------|---------|
| | Budget Authority | Outlays |
| Annual | | |
| 2000 | 325 | 60 |
| 2001 | 325 | 205 |
| 2002 | 325 | 305 |
| 2003 | 325 | 360 |
| 2004 | 325 | 395 |
| 2005 | 325 | 405 |
| 2006 | 325 | 415 |
| 2007 | 325 | 415 |
| 2008 | 325 | 415 |
| 2009 | 325 | 415 |
| Cumulative | | |
| 2000-2004 | 1,625 | 1,325 |
| 2000-2009 | 3,250 | 3,390 |
| SPENDING CATEGORY: | | |
| Discretionary | | |
| RELATED OPTION: | | |
| 920-06-A | | |

An alternative to repealing the Davis-Bacon Act (see option 920-06-A) would be to raise the threshold for determining which projects are covered by the act. In recent years, several bills have been introduced that would raise the threshold by various amounts. Raising it from \$2,000 to \$1 million would save about \$60 million in 2000 and about \$3.4 billion over the 2000-2009 period in discretionary outlays, provided that federal agency appropriations were reduced to reflect the anticipated reduction in costs. In addition, it would save \$2 million in 2000 and \$35 million over the 10-year period in mandatory spending. Although this option would save only about one-third of the amount that would be saved by repealing Davis-Bacon, the option would reduce firms' and the government's administrative burden by restricting coverage to the largest contracts.

As with repealing Davis-Bacon, raising the threshold would allow the federal government to spend less on construction, although the precise effect of raising the threshold on contractors' costs is difficult to measure. In addition, it would probably increase the opportunities for employment that federal projects would offer less skilled workers. However, such a change would lower the earnings of some construction workers. In addition, opponents of this option argue that raising the threshold could jeopardize the quality of federally funded or federally assisted construction projects. They contend that by requiring firms to pay at least the locally prevailing wage, the people they hire are more likely to be able workers, resulting in fewer defects in the finished projects and more timely completion.